

HOUSING AND PUBLIC UTILITIES SPHERE OF MODERN RUSSIA: FINANCIAL AND ECONOMIC PROBLEMS AND WAYS OF THEIR SOLUTION ¹

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Abstract: The paper summarizes the results of a study performed by scientists involved in the financial and economic problems of the housing and public utilities sector, and carried out as part of the research project No. 18-010-00090 “Study of the financial and economic aspects concerning the activities of management companies in the housing and public utilities sector and the development of proposals to improve their financial sustainability” carried out with the financial support of the Russian Foundation for Basic Research. The complex of financial and economic problems in the management of apartment buildings and the reasons for the general economic inefficiency of the housing and public utilities sector in modern Russia are disclosed. The ways of solving the specified problems are determined.

Keywords: housing and public utilities services, management companies, resource-supplying organizations, financial instability, authorized capital, accounts receivable

1. INTRODUCTION.

In a market economy, efficient economic structures are being formed under the influence of competition. The winner is usually the one who offers goods and services of higher quality and at a lower price. The collapse of the administrative-command economic system in the early 1990s in the former USSR and the transition to market rails were caused precisely to these factors. Since then, the Russian economy has become more efficient in this respect than the economy in the era of socialism. At the same time, it was not possible to achieve positive results in all sectors of the economy; the main problem still remains the housing and public utilities sector of modern Russia. In the housing and public utilities sector, the growth of tariffs is occurring at rates exceeding the general rate of inflation, and the quality of the services provided practically does not change, but sometimes worsens. All this is happening along with the process of increasing the degree of competition in the market for the management of apartment buildings. Even in small towns, the owners of the premises of an apartment building can independently choose any management company from those that exist in the town, or create their own management company in the form of partnership of housing owners or housing cooperative. However, the presence of many management companies on the market does not provide for improving the quality and reducing the cost of housing services. Housing and public utilities services have systemic problems that the state is also trying to solve.

2. PAYMENT ARREARAGES OF THE POPULATION FOR HOUSING AND PUBLIC UTILITIES SERVICES

The determining factor in the deformation of the financial and economic mechanism in the housing and public utilities sector is the payment arrearages of the population for housing and public utilities services. Housing services are services for the maintenance and management of an apartment building (cleaning of premises and building surrounding grounds, garbage collection, etc.). Public utilities are provision of resources for their consumption (gas, water, electricity, etc.). Payment arrearages for housing and public utilities services are double-natured: the delay in their payment; avoiding payment. The delay in payments leads to the need to form additional working capital from managers and resource-supplying organizations, what can also be difficult and lead to a deformation of the financial relations system in the industry. The greatest problem is the failure of the owners of the premises to pay for housing and public utilities services, as this leads to the bankruptcy of management companies and even greater tariff increases as a means of covering losses in the industry [1].

The avoiding payments for housing and public utility services takes place because of the impossibility to recover them from the owners of the premises according to the writs of execution, as well as frequent changes and bankruptcies of management companies serving the apartment building [see: 2]. It is easier for management companies to provide

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housing services in the amount of payments received, not accrued. Such a system has become dominant in Russia and causes system problems in the housing and public utilities sector.

3. FINANCIAL INSTABILITY OF MANAGEMENT COMPANIES

The management of apartment buildings is the most important sector of the country's economy. In Russia, 48.8 thousand organizations manage apartment buildings serving 725 thousand houses (2.5 billion square meters of premises); among those organizations 16.6 thousand are specialized management companies that have a license and 32.2 thousand are partnership homeowners and housing cooperatives [3]. A characteristic feature of the market for the management of apartment buildings in modern Russia is the presence of financially unstable management companies. Such companies are not interested in providing quality housing services, and consumers of these services do not have the opportunity to find an effective management company. A selective study of the financial condition of 81 management companies in Tver, Yaroslavl and Krasnoyarsk conducted by the authors showed that 29% of management companies are unprofitable, every third management company has negative capital, and every eighth management company has negative capital and is unprofitable at the same time. Negative capital is a situation when the company's liabilities exceed the value of its assets (the company's net assets are negative). Balanced financial result of all companies was negative, that is, they showed a loss. Similarly, the balanced capital of management companies was negative [4]. This means that the amount of loss in a smaller number of companies was larger than the amount of profit of a larger number of companies. This result is due to the fact that larger companies are more often unprofitable. The situation is similar with the capital of management companies: larger companies are more likely to face negative capital. The main reason for the financial instability of management companies is creation of them with the minimum allowable share capital, regardless of the scale and volume of activities of such companies. The most common legal form in which management companies are established is a limited liability company (LLC), the minimum authorized capital of which is only 10,000 rubles. (\$150 USD). For example, LLC GUK of the Moskovsky district (Tver), having a registered capital of 10 000 rubles, manages 144 apartment buildings with a total area of premises in them equal to 256 thousand square meters. But this means that the owners initially invest in the business only US \$ 1 per apartment building. However, this is not a singularity, but a typical phenomenon.

As is known, the authorized capital represents the minimum amount of funds of the organization, guaranteeing the fulfillment of its financial obligations. The authorized capital is the primary basis for the formation and growth of the organization's capital and the receipt of borrowed (credit) financing by it. The insignificant amount of the authorized capital and the high riskiness of the business do not allow the housing and public utilities management companies to attract loans and credits. The size of the share capital is not enough for a management company to the full extent and in full scope provide housing and public utilities services. To do this, companies must have the necessary working capital. The peculiarities of the business of management companies are that they first provide housing services, and then they bill them. In addition, they need working capital to finance receivables arising from delays in payments of people for housing and public utilities services. Such a delay can be substantial and often amounts to three months (someone pays in time and someone delays payments up to 1-2 years).

The data of the balance sheets of management companies in Russia show that the main source of financing of management companies is accounts payable. Managing companies often seek to be intermediaries between the owners of premises in apartment buildings and resource-supplying organizations, collecting utility bills and delaying them on payment to organizations - resource providers. This allows management organizations to finance their business activities. The insignificance of their authorized capital leads to the fact that the owners of the management company have nothing to lose in case of its bankruptcy. This is not conducive to the creation of high incentives to create an effective system for the provision of housing services.

Since the activity in the sphere of management of apartment buildings is often unprofitable, it is not profitable for the owners of management companies to invest significant capital in them [4]. As already noted, running at a loss is associated with payment arrearages of the population for consumed housing and public utilities services and resources. Management companies do not always manage to collect all debts from consumers, and part of them has to be written off as accounts uncollectible. Therefore, generally, the longer the management company is in the market, the greater its receivables and uncovered loss (or negative capital). When an uncovered loss takes an unacceptable value, the management company goes bankrupt, and apartment buildings are transferred to another management company controlled by the same individuals. As a result, resource-supplying organizations cannot collect debts from a bankrupt.

In the management of apartment buildings, there is a process of deformation of the financial and economic mechanism. This is reflected in the fact that the founders of management companies receive profits not in legal, but in illegal form. Legally, they cannot get a profit because of unprofitable activities. Therefore, the incentive to carry out economic activity is transferred to its illegal sphere represented by a variety of forms, and its result is the withdrawal of funds from the management organizations. For example, it may be the conclusion of fictitious contracts and payment for unfulfilled services to third parties; overestimation of the cost of work performed, etc.

Due to the fact that the amount of illegal profit exceeds the amount of legal loss, it is economically unprofitable (even with the hypothetical existence of a zero tax rate on profits) to "transfer" illegal income to legal form, since the balanced result will become negative, that is, will take the form of a loss. Thus, the overall unprofitability of the apartment buildings management in modern Russia objectively leads to the need for owners of management companies to seize profits in an illegal form. Otherwise, in the market of apartment buildings management there would be a shortage of "proposals" of management companies.

4. PROBLEMS AND LIMITATIONS OF COLLECTIVE FORMS OF MANAGEMENT

An alternative way to manage an apartment building can be a transition to collective forms of management (partnerships of housing owners, housing cooperatives and direct management). In essence, a partnership of housing owners and a housing cooperative are similar forms of management and the difference between them does not affect their economic efficiency. The difference consists only in the specifics of the construction of the organizational-legal form (partnership or cooperative). Collective forms have not yet received significant distribution in Russia, only 7–8% of apartment buildings use them [4]. With these forms, the owners of the premises themselves (in fact, they are residents living in the house) manage the apartment building. It would seem that people living in a house know better about its problems and are more interested in solving them, and financial flows should be under greater control. However, in practice, the implementation of collective forms faces a number of problems [See: 5-7].

These problems include:

The first problem is the absence in the apartment building of persons who would show their initiative to manage the house. It should be noted here that the monetary remuneration of such persons is insignificant.

The second problem is the presence of a state of conflict between the owners of the premises when making decisions on its maintenance and management of the house.

The third problem is the possibility of improper use of the special-purpose contributions collected by the chairman of the partnership of housing owners or housing cooperative board. The chairman of the board can, like the management company hired by the owners, act in his/her own interests, and not in the interests of the house withdrawing the collected funds from the organization.

The noted circumstances put certain limits in the development of collective forms of apartment buildings management in the form of a partnership of housing owners or a housing cooperative in modern Russia.

An interesting form of management (also referred to as collective) is the transition to the direct management of an apartment building [8, Article 164]. Its difference from the partnership of homeowners and the housing cooperative is the uselessness of registration of a legal entity and the transfer of the owners of the premises to direct contracts with resource-supplying organizations. In this case, it is not necessary to bear the costs of operation of a legal entity, including payments to its head and accountant, nor is it required to pay taxes and other payments. In this form, a degree of citizen participation in the management of the house is higher. The disadvantage of this form is also the possible absence of leaders in the house who would assume the main responsibilities for ensuring the functioning of the house local government. Only houses can transfer to the direct management of an apartment building with the number of apartments in them not more than thirty (until mid-2015 - no more than sixteen). According to the authors, it would be advisable to remove the restriction in the RF Housing Code on the maximum number of apartments in a house with a direct form of management.

5. MONOPOLISM OF RESOURCE SUPPLYING ORGANIZATIONS

Resource-supplying organizations (suppliers of gas, water, electricity, etc.) are by their nature monopolists and require government regulation. In this regard, the tariffs for the resources they supply are regulated by government agencies. Tariff formation is based on the principle of the need to cover costs and obtain calculated profit. In addition, the tariff includes losses of companies to write off uncollectible receivables, as well as the so-called investment component - the formation of investment resources in order to expand and modernize the existing system of supplying resources to consumers. The tariff must be sufficient to: 1) cover all costs (including network losses, debt cancellation, etc.); 2) to make a profit in the amount necessary not only for the expansion and modernization of networks (taking into account its taxation), but also for distribution among the shareholders (owners) of the company [See 9]. Such a system of tariff formation does not allow resource-supplying organizations to reduce costs and increase operational efficiency. As a result, tariffs increase at rates exceeding inflation rates. So, for example, if in 2000 utilities accounted for 210.26 rubles per month per person, then in 2015 - 1450.36 rubles. [10, p. 48], that is over fifteen years they have grown by 6.9 times, while the price level in Russia has grown in 4.3 times. Thus, the real cost of utilities increased by 1.6 times (on average, their growth was 3% per year). Similarly, it happens with the outrunning increase in prices for housing services, which for fifteen years have grown from 64.09 rubles. up to 509,560 rubles per month per person (8.0 times) [10, p. 48]. Resource-supplying organizations are trying to impose on the population a lot of various additional services by taking them out of the list of services that they are obliged to provide within the framework of a tariff set by state bodies, which further increases the cost of providing housing services by management companies. As an example, it is possible to conclude contracts with managing organizations on the maintenance of water pumping stations that supply several apartment buildings with water, or contracts for the maintenance of gas control equipment, etc. Resource supply organizations force management companies to enter into such agreements with them, and those, in turn, are forced to automatically raise the tariff for the maintenance and management of apartment buildings.

6. CONCLUSION

Financial and economic problems in the housing and public utilities sphere of modern Russia require a comprehensive solution. Here we can suggest the following ways.

The first is an increase in the minimum authorized capital of management companies serving apartment buildings and “linking” this value to the total area of premises in apartment buildings. This will allow a management company to have “start-up” capital necessary for investing in non-current assets and to increase its creditworthiness. At the same time, in this case, it will be necessary to solve another problem: preventing formation of a fictitious authorized capital, when real assets are not behind the accounting records in the capital account. The authors see essence of the

decision in prohibiting the formation of authorized capital by contributing by the owners of intangible assets which value is difficult to estimate, as well as financial instruments which value may be unreliable or difficult to determine (for example, bills of exchange which may be “friendly”, or obligations that are not will be executed).

It seems necessary to solve the problem of preventing the “removal of assets” from an organization - in modern Russia, it is customary to call embezzlement of the organization’s funds by its managers and owners by entering into transactions that are not profitable for the organization, and the purpose of which is to transfer the economic benefits to another organization or individuals.

The increase in the minimum amount of authorized capital for management companies should be implemented not at one time, but gradually, over a period of 2-3 years, in order for the business to adapt to the new economic conditions.

The second is the introduction of more specialized legal forms of management companies into the housing legislation. The legal constructions of these forms themselves should provide for a certain optimal balance of rights and obligations of companies, their managers, owners and consumers of services, aimed at increasing the efficiency of the economic mechanism of management companies.

The third is to increase the transparency of the financial and economic activities of managing organizations. Financial reports should be the most detailed and understandable for those who do not have an economic education. The State Housing Inspectorate should assume the function of control over the intended use of housing payments.

The fourth is strengthening criminal and administrative responsibility for the quality, volume and timeliness of housing and public utilities services. The main instrument operating in this direction is to increase the amount of fines for improper provision of housing and public utilities services.

The fifth is to strengthen the responsibility for payment arrearages concerning housing and public utilities services by increasing financial sanctions.

The sixth is the introduction in the practice for state regulation of resource-supplying organizations of strict measures aimed at reducing the costs of providing public services. The establishment of a rule according to which the growth of tariffs should occur at a rate which is lower than the inflation growth rate (by 0.5–1% per year).

The creation of an effective economic mechanism in the housing and public utilities sector can be one of the growth drivers for the Russian economy due to the increased return on the use of economic resources (production factors).

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